

Message Text

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ORIGIN EB-11

INFO OCT-01 ARA-16 EA-11 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 AGR-20 TAR-02 PRS-01 ISO-00 /173 R

66603

DRAFTED BY: EB/OT/STA:LICOHEN

APPROVED BY: EB/OT/STA:EWKEMPE

ARA/EP:KGUTHRIE (DRAFT)

ARQA/ECP:CREYNOLDS (DRAFT)

ARA/MEX:RKING (INFO)

ARA/CAR:JSIMMS (INFO)

ARA/CEN:JSULLIVAN (INFO)

EA/K:HNEWSOM (INFO)

EA/ROC:JMOYLE (INFO)

----- 082840

R 231750Z NOV 73

FM SECSTATE WASHDC

TO AMEMBASSY QUITO

INFO AMEMBASSY MEXICO

AMEMBASSY SAN JOSE

AMEMBASSY SANTO DOMINGO

AMEMBASSY TAIPEI

AMEMBASSY SEOUL

C O N F I D E N T I A L STATE 230670

C O R R E C T E D C O P Y (OMISSION LINE 16 PARA 4)

E.O. 11652: GDS

TAGS: ETRD, EC, MX, CS, DR, TS, KS

SUBJECT: MUSHROOMS

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1. WE MET WITH ECUADORIAN EMBASSY OFFICIALS (MIN CONS,

GABELA AND COMMATT HERNAN ORELLANA) NOVEMBER 20 TO DISCUSS
WITH THEM THE CONTENTS OF THE GOE NOTE OF OCTOBER 5.

2. WE EXPLAINDD THAT THE PRESENT DIFFICULTIES CONFRONTING
THE U.S. 8ICNDUSTRY RESULTED IN LARGE PART FROM THE RAPID
GROWTH IN IMPORTS FROM TAIWAN AND MORE RECENTLY FROM KOREA.
EFFORTS TO PROVIDE RELIEF HAVE CENTERED ON THE CONCLUSION
OF RESTRAINT ARRANGEMENTS WITH THOSE TWO COUNTRIES. WE HAD
NOT OPENED DISCUSSIONS WITH OTHER COUNTRIES SINCE IMPORTS
FROM ALL OTHER SUPPLIERS COMBINED REPRESENTED ONLY ABOUT 10
PERCENT OF THE TOTAL AND IT WAS THEREFORE UNLIKELY THAT THEY
WOULD THREATEN INJURY TO U.S. PRODUCERS. RECENTLY, HOWEVER,
THERE HAVE BEEN INDICATIONS THAT SEVERAL COUNTRIES IN LATIN
AMERICA ARE PREPARING FOR SHARP INCREASES IN PRODUCTION AND
EXPORTS TO THE UNITED STATES FROM A LEVEL OF JUST OVER
ONE MILLION POUNDS IN 1973 TO AS MUCH AS 7 MILLION POUNDS

IN 1974 AND PERHAPS TO 12 MILLION POUNDS IN 1975. PROJEC-
TIONS FOR THE GOE, CONFIRMED BY THE GOE AIDE MEMOIRE,
INDICATE THAT A LARGE PART (25 TO 40 PERCENT) OF THAT
INCREASE WOULD COME FROM ECUADOR.

3. WITH THE ABOVE AS BACKGROUND WE MADE THE FOLLOWING
POINTS:

A. INCREASES OF THIS MAGNITUDE FROM ECUADOR AND
OTHER LATIN COUNTRIES COULD NOT BE ABSORBED BY THE U.S.
MARKET WITHOUT FUTHER SEVERE DOWNWARD PRESSURES ON PRICES

B. THERE IS MUCH UNCERTAINTY ABOUT PRESENT AND
FUTURE CONSUMPTION LEVELS IN THE UNITED STATES. PRICES TO
GROWERS HAVE DROPPED TO 1968 LEVELS AND WHOLESALPRICES.
ARE DOWN SIGNIFICANTLY.

C. DECLINING PRICES AND UNCERTAIN CONSUMPTION
PATTERNS RESULTING FROM THE CONTINUING HIGH LEVEL OF
IMPORTS AND THE RECENT FDA BOTULISM INVESTIGATION HAVE
ADDED EVEN MORE URGENCY TO OUR EFFORTS TO CONCLUDE
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RESTRAINT ARRANGEMENTS WITH THE ROC AND ROK. SHARP
INCREASES IN IMPORTS FROM ECUADOR AND OTHER LATIN
COUNTRIES WILL RESULT IN STRONG PRESSURES TO RESTRAIN
IMPORTS FROM THOSE COUNTRIES AS WELL.

D. IT WOULD BE WISE TO INFORM LOCAL EXPORTERS ABOUT
THESE PROBLEMS. IN THESE CIRCUMSTANCES EFFORTS COULD
BE MADE TO DIVERSIFY EXPORT MARKETS AND REDUCE ECUADOR'S

APPARENTLY TOTAL DEPENDENCE ON THE U.S. MARKET.

4. IN THE ENSUING CONVERSATION, THE ECUADORIANS POINTED TO THE SIGNIFICANT AMOUNT OF U.S. CAPITAL INVESTED IN THE TWO MUSHROOM ENTERPRISES IN THE COUNTRY. THEY DID NOT SEE ALTERNATIVE OUTLETS FOR THEIR EXPORTS IN LATIN AMERICA. THEY SAID THAT SOME \$1.6 MILLION HAD ALREADY BEEN INVESTED IN MUSHROOM GROWING AND CANNING OPERATIONS. THE GROWING AREA IS 900,000 SQUARE FEET WITH A POTENTIAL OUTPUT OF 9 MILLION POUNDS (FRESH WEIGHT) BASED ON 3.8 PRODUCTION CYCLES PER YEAR. THERE ARE 380 EMPLOYEES INVOLVED IN THESE OPERATIONS. THE OFFICIALS EXPLAINED THAT THE MUSHROOM INDUSTRY IN ECUADOR ORIGINATED IN 1965 WITH ASSISTANCE FROM USAID. WITH THAT ASSISTANCE ECUADOR ORGANIZED ITS RESOURCES SO AS TO BENEFIT FROM ITS COMPARATIVE ADVANTAGE IN THE GROWING AND PROCESSING OF MUSHROOMS AND TO ATTRACT THE INVESTMENT NECESSARY TO BEGIN PRODUCTION. THE INDUSTRY IS NOW VIABLE AND IT WAS CLEARLY IN THE GOE'S INTEREST TO ATTEMPT TO GUARANTEE ITSELF A SHARE OF THE U.S. MARKET.

5. IN RESPONSE TO THESE POINTS, WE STRESSED THE PRESSURES ON THE INDUSTRY WHICH LED TO OUR EFFORT TO PROVIDE RELIEF. THIS EFFORT WOULD BE INEFFECTIVE IF, HAVING NEGOTIATED WITH THE ROC AND ROK, THE INDUSTRY WERE THEN FACED WITH RAPID INCREASES FROM OTHER SOURCES.

6. COMMENT: THE ECUADORIANS EXPRESSED APPRECIATION FOR OUR EXPLANATION OF U.S. MARKET CONDITIONS AND THE PRESSURES ON THE DOMESTIC INDUSTRY. THEY SAID THEY WOULD CONVEY OUR VIEWS TO THE GOE. KISSINGER

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